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Risk Management Challenges of Shared Public Services:
A Comparative Analysis of Scotland and Finland

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Fragmentation and Coalescence of Public Services

The public sector comprises extensive and multilevel sets of authorities and bureaus at state, regional and municipal levels. Legislation separates sectoral responsibilities within semi-autonomous public agencies. These 'service silos' allow public organisations to pursue their own idiosyncratic objectives, priorities and organisational arrangements, sometimes duplicating other organisations' services and so reducing cost effectiveness, this being highly undesirable within the current context of substantial ongoing reductions in public sector funding (IFS 2012; Whittaker 2013; Ling 2002; Burnett and Appleton 2004).

Fragmented service structures cannot deal effectively with 'wicked' societal problems (e.g. social exclusion) to improve outcome effectiveness for marginalised individuals, groups and families receiving health, social care, police, probation and other services. Joint working and sharing resources may improve public service productivity (HM Government, 2010; Scottish Government, 2014d) but ensuring cooperation with and input from multiple agencies operating partnership arrangements creates management risks (Young, 2006). Nevertheless, pressure from on-going budget cuts against a background of growing service demand (Oxfam, 2012) means multi-party cooperation and service delivery innovations is urgently needed (Asenova et al., 2013; Hasting et al., 2012).

Public authorities working in isolation (i.e. in service silos) may face unnecessarily high capacity and sustainability risks, which shared service arrangements can help mitigate. However, shared services introduce new risks to which 'siloed' authorities are not exposed. This article considers management of these risks, the focus being on organizational and operational risks (both negative and positive) for municipal shared services. It highlights the fundamental risk management challenges of shared municipal services but, within the space available here, cannot provide comprehensive risk management solutions for adoption by municipalities.

The following comparative analysis of Scotland and Finland demonstrates how the types and sharing of risks are affected by their different legal requirements, widely different sizes of municipalities and different service delivery models. It demonstrates both countries face acute and complex challenges for the risk management of shared services as both reform their local public services. It focuses on how ageing demographic structures and synergies between services for elderly people has led the governments of both countries to place particular emphasis on the integration of health and social care services.

Defining and Implementing Shared Services

Joined-up services are sometimes referred to as shared services but arrangements for their delivery differ. The latter term usually refers to services which are available to many parties whereas the former describes coordinated operations across organizational boundaries (Frost 2005, Hasset and Austin 1997, Kavanagh and Richards 2001, Reilly 2000), all participating organisations losing their autonomy as the new centralized service organization is created by incorporating and merging the existing agencies (Dunleavy 2010, Pollit 2003).

Often thought of as 'back-office', there is no single generic definition of shared services. Moving from simplistic to increasingly complex arrangements, a shared service is provided to multiple recipients (Reilly 2000) from a single location (Bangemann 2005), is a centralized administrative unit providing services to internal operational units (Niehaves and Krause 2010) or whole departments in a single organization (Borman 2010), is provided by a distinct and quasi-autonomous unit based on prior agreed conditions (Joha and Janssen 2010), or by a legally separate entity providing services to the parent company (Bergeron 2003). These definitions mostly refer to in-house shared services which are excluded from this study of shared services integrated out-house.

Focusing on inter-municipal shared services, there are four basic arrangements (CIPFA 2010). First, the public-public method involves local governments introducing a joint working method or a joint legal entity in the form of a company limited by guarantee or by equity holdings, this typically being the case in Finland. Second, a public-private partnership enables a private or third sector collaborator to provide special expertise and other external resources within a new joint venture, this often being the case in England whereas Scotland uses a joint-working model (see below). Third, a single local government may outsource its services to a third party organization via a purchaser-provider split, again often the case in England (YouGov 2012). Fourth, local governments may act together to pool their public procurements in order to make the outsourcing of services more attractive to contractors.

Development of a Risk-based Approach to Shared Public Service Systems

New service delivery models increasingly rely on various integrated models involving partnership arrangements, where partnering is generally understood as a greater degree of openness, communication, trust and information sharing (HM Treasury and OGC 2004). They tend to be high-risk and high-reward innovative options seeking to achieve maximum service improvement with limited resources, which cannot be delivered using the resources of any one organisation.

However, because of their novel design and non-traditional relationships, shared services create risks arising from limited past experience, different funding models and financial pressures for efficient service provision, and potential cultural, governance and other mismatches – including willingness to take risks (Chen and Bozeman 2012). They are subject to financial, service and reputational risk relating not only to shared back-office functions (HR, finance, payroll and procurement) but also asset management, logistics, duty management, analytics, document management, service management and enterprise content management.

UK government bodies and watchdogs recognise that shared services face risks (HM Treasury 2004; HM Treasury and OGC 2004; NAO 2000, 2001, 2008 and 2010; Audit Commission 2007). Government guidance emphasises the need to improve handling of key risks with partners. First, unfamiliar risks associated with a reduced level of control and failure to align agendas and

communication channels. Second, diverse cultures and complicated service delivery chains can potentially lead to polarised perspectives on risks. Third, lack of clarity about both risks and risk ownership alongside an optimism bias can lead to failure to recognise and so to manage and mitigate risks, notwithstanding its pervasiveness within the public sector.

Despite having a dedicated risk management function, many public sector organisations have used a simplistic approach to management of risks, traditionally focused on insurable risks such as fires, thefts and liability exposures and occupational health and safety (Drennan and McConnell 2007; Fone and Young 2005; Woods 2011). Power (2009: 854) criticised "the production of psychological and bureaucratic safety via an elaborate infrastructure of audit trails" highlighting their limited value. A better understanding of subtle service issues such as quality, user (dis)satisfaction, social risk, reputation damage and disruption of strategic planning processes is required (Eckerd, 2014; Hood and Miller 2009; Osborne and Brown 2011).

In particular, a cultural and conceptual shift in the public sector risk management profession towards social risk management is urgently required to counterbalance the current preoccupation with defensive organisational risk management practices with a more proactive social risk mitigation dimension (Asenova et. al., 2014a; Asenova et. al., 2014b). Risk-averse public authorities tend to focus on compliance with health and safety law, insurance, protection from litigation and other legal requirements (Asenova et al., 2013). If they want to avoid 'proceduralism' (Power, 2004 and 2009) and community stakeholders becoming disenchanted with citizen-engagement initiatives (Foo et al., 2011) they have to pursue financial savings whilst simultaneously improving the effectiveness of services and delivery programs (NAO, 2013a).

Institutional, Strategic and Operational Risks of Shared Services

Institutional risks of shared services relate to national legal and regulatory frameworks and processes locally implemented within cross-agency collaboration systems, especially where organizational models and financial principles of shared service systems are centrally designed and imposed on local governments and other local agents as a one-size-fits-all national-government-knows-best model whilst ignoring local preferences, traditions, and conditions (Bailey 2008).

Strategic risk arises when it is difficult for an organisation to align its objectives with those of its partners in providing network-based joined-up services, possibly resulting in tensions between several agencies whose different service professionals may not share common aims, for example shared services for young children and their families (Warin 2007). Such lack of trust is exacerbated in the absence of systematic and well-structured administrative preparation (Janssen et al., 2007).

Operational risks relate to task, structure, management process, employee skills and ICT (Borman 2010). They may arise from creation of extra administrative layers and/or organizational units to manage sharing. Moreover, front-line workers may not cope with radical changes in tasks and related work patterns and procedures, especially if they are required to physically relocate. The autonomy of workers may be compromised by the multi-agency environment, they face several lines of accountability and need training in both generic and specialist knowledge and varied management and advocacy skills in order to serve customers with multiple problems and operate in or with several public bureau, such demanding professional requirements perhaps leading to staff resistance (Cameron 2010).

Ultimately, service organisations coming 'out of silo' create organisational risk as they reinterpret and reconfigure shared service management concepts for their own specific conditions before

implementing them, especially if organisational conditions are not fully compatible (Ulbrich 2010). Risks are greater when senior management support is lacking for shared services forced top-down by higher levels of government.

Councillors may evaluate collaborative-based service arrangements warily as they consider not only financial risks (Bhattacharya and Wheatley 2006) but also possible failure to achieve their local government's strategic objectives (Bartlett et al., 2004; Jeppesen 2007). Being risk-averse may predispose councils to withdraw rather than share services they are not required by law to provide, achieving immediate cost savings but creating risk in the long term by abandoning a preventative approach safeguarding service outcome objectives (Ipsos Mori and Zurich Municipal 2010). Councillors may consider a shared service's strategic risks to be greater when it is a completely new service, compared with a well-established service and also when collaborative partners are new compared with well-known and long-term partners.

These institutional, strategic and operational risks are exacerbated where decentralisation was previously highly valued, where lifelong tenure of public employment existed, where development of shared services is seen as primarily driven by hoped-for cost savings, where there is no previous experience of co-operation between the organisations involved and where political support is weak (Joha and Janssen 2010, Niehaves and Krause 2010; Marshall 2014).

Mitigating Strategic and Operational Risks

The financial risks involved in setting up shared services may be greater than can be justified by the apparently relatively small and uncertain hoped-for net savings in councils' budgets (Arbuthnott 2009; NAO 2013b). This highlights the need for a much broader rationale for integration via shared and joined-up services, the models for which may be fragile if partners are incentivized only by cost savings as distinct from a reallocation of scarce resources to more effectively promote substantive increases in public value (Coriant 1995; Alänge et al., 1998; Valkama et al., 2013).

Strategic and operational risks can be mitigated by distinguishing between 'real' and 'virtual' integration of services, the former being a 'big bang' reform, the latter more evolutionary relational and behavioural change. Many of the benefits of organisational mergers may be achieved with lower strategic risks if there is good information sharing and effective professional relationships across disciplines and organisations to achieve the stated objectives, for example by government supporting the development of various telehealth and telecare projects including online access to patient records (Anon 2014).

Mitigation of those strategic and operational risks requires organisational stability in a complex system environment such as the NHS, avoidance of organisational and professional conflicts over priorities and values, clearly identifying and measuring the benefits for service users, strong but consensual managerial leadership essential to develop partnership arrangements and for bringing staff on board, compatible IT systems that can 'talk' to each other so that professionals can share information about patients across organisational boundaries; and combined budgets for health and social care provided simultaneously notwithstanding their funding from different sources (Priest 2012).

Risk management challenges of shared services in Scotland

In 2014 Scotland introduced the Health & Social care Integration – Public Bodies (Joint working) (Scotland) Act. The stated policy objectives emphasizes the need to respond to improve quality and

consistency of service provision for the growing number of people with long-term complex needs, while resources are used effectively and efficiently (Scottish Government 2014b).

The 2014 Act adopted joint provision of services between public sector departments and/or functions on the one hand and with other public sector bodies and/or third sector and community organisations on the other, delivering joint prioritisation of outcomes, interventions and resources used for public services, in so doing strengthening the integration of public services (Scottish Government 2014a, 2014b and 2014c). The Scottish joint-working model approach differs from the joint-venture model between public and private sector partners promoted in England, also including councils establishing joint or shared procurement units to share specialist procurement officers (Murray, Rentell and Geere 2008, NAO 2013b).

The overarching objective of the 2014 Act is to promote consistently high quality health and social care services by integrating them at a local community level, focusing on adult primary and community health care, social care, and aspects of acute hospital care linked to preventative services. It requires NHS Scotland and local authorities to work closely with the third and independent sectors and requires Scottish ministers to establish via secondary legislation the "minimum scope" of functions and budgets to be integrated and national outcomes for health and wellbeing (Scottish Government, 2014a).

The arrangements for service integration emphasise the need for preventative, anticipatory and person-centered approaches to the planning and delivery of services (Scottish Government, 2014b), particularly in the provision of care and support for older people. Health boards and local authorities must create integrated partnership arrangements at local level via either delegation between partners ('lead agency arrangements') or delegation to a body corporate with a chief officer appointed by the joint board.

UK government documents (Cabinet Office 2012 and 2013; HM Government 2010) do not provide a sufficiently comprehensive analysis of the potential associated risks or indeed frameworks or guidance for dealing with them and the 2014 (Scotland) Act highlights only three risks.

First, staff transfer between partners requires harmonisation of terms and conditions. In the case of staff transfer to the Health Board, migration onto NHS terms and conditions could lead to potential cost increases. In case of staff transfer to the local authority, there is a risk of an equal pay claim from the existing local authority staff, the costs of breaching equality of pay rules being very difficult to estimate in advance. Additionally, pensions are one of the biggest cost issues in shared services. Some models of financial integration are used to help address pension fund deficits but others exacerbate those deficits. For example, delegation models involve another local authority hosting the service, staff transferring to it from the other partner(s) under TUPE. This may reduce the number of staff at the delegating authority and therefore reduce the base from which pension contributions are made.

Second, the risk associated with the different VAT status of the partners complicates (and may prevent) the recovery of VAT on goods and services purchased through the integrated budget, mitigation of this risk requiring new guidance from HM Revenue and Customs (HMRC) in respect of delegation to a body-corporate model.

Third, the risks related to the professional indemnity to the host partner are dealt with through an extension of the Clinical Negligence and Other Risks Scheme (CNORIS) indemnity scheme to

include local authorities so that they (as well as Health Boards) can obtain indemnity cover (Scottish Government, 2014b).

A more holistic risk management approach for both operational and strategic risk is required. Besides considering the above-noted risks relating to staff transfer, VAT and professional indemnity, it would also include risks associated with the lack of previous experience, cultural, governance, financial and institutional divergence, dissimilar approaches to logistics, analytics, documents, service and enterprise management. All of these risk categories create new or increase existing financial, service and reputational risks faced by service providers and so magnify organisational risks.

Risk management challenges of shared services in Finland

The term 'shared services' is not used in Finland but municipal collaborative arrangements have long been used because most local governments have very small populations. Like Scotland, Finland has just over 5 million inhabitants. Unlike Scotland, however, Finland has 317 local governments whereas Scotland has only 32. Hence, the population of Scottish municipalities is about ten times greater than that of Finnish local governments on average.

Many sparsely-populated Finnish rural municipalities have long been considered incapable of fulfilling all their statutory duties on their own and unable to implement effective risk mitigation of non-shared municipal services simply because of insufficient tax bases and personnel resources. Finland's national government has therefore made many shared services legally compulsory or financially inevitable (Hannus et al., 2009; Harjula and Prättällä 2007).

Finnish municipalities are required to organize special health care, care of handicapped people, fire and rescue services, and regional planning via inter-municipal co-operation. Furthermore, small local governments have to organize primary health care and social services jointly with other municipalities based upon joint municipal service areas with around 20,000 residents. Beside statutory shared services, municipalities also co-operate extensively on a voluntary basis sharing services such as vocational education, polytechnics, environmental services, welfare for addicts, consumer advice, junior high schools, community colleges, and municipal waste management (Harjula and Prättälä 2007).

Perhaps understandably, municipalities do not carry out comprehensive and constant risk analyses for the shared services they are required by law to share because they do not have a choice about policy, forms of collaboration, or organisational forms for shared services. The prime responsibility for risk mitigation is seen to fall on the legislature, notwithstanding the fact that it is not a forum for assessing the appropriateness of the different risk mitigation methods in different parts of the country. Instead, shared services are justified on an effectively risk-free or risk-neutral basis by referring to the resultant economies of scale and the benefits of specialization (Ratasvuori 2005; Sahala and Tammi 2003). Although this scenario differs markedly from that in Scotland, a holistic approach to strategic risks is again lacking.

Joint municipal boards provide statutory and voluntary shared services to many local governments simultaneously. Organizational risk is obviated by the legislature making impossible fundamental financial difficulties for joint municipal boards, effectively outlawing bankruptcy even though they are funded through customer charges and membership fees. Member municipalities have to balance their Board's books by increasing their membership payments to preempt deficits, using their taxes on property and incomes to raise the necessary revenues. Hence, organizational risk is mitigated but

at the cost of financial risk ultimately being borne by local taxpayers and service risk being borne by clients.

Although their financial risks are thereby obviated, joint municipal boards have been criticized as undemocratic bureaucracies with no responsiveness to local residents and so face political and reputational risks. The funding system of the joint municipal boards and the administrative and political distance between the boards and municipalities make it very difficult for municipal managers to control the budgets and costs of the boards which have a strong position as local statutory monopolies (Nissinen and Viitasaari 2006). Furthermore, the joint municipal boards are single-purpose agencies whereas municipalities have a power of general competence, imposing a risk that some economics of scope are lost by inter-municipal boards.

Consequently, municipalities established regional and sub-regional corporations based on private law, being shareholders in these jointly-owned limited liability companies which are perceived as lower budgetary risk than joint boards and account for the larger part of the voluntary shared services (Valkama 2013). Instead of local taxpayers bearing ultimate financial liabilities, financial risks are borne in order of preference by the holders of collateral, by the (unpaid) salaries of employees, unpaid taxes, unpaid rents, unpaid floating charges and by others (including shareholders). However, these companies have been argued to face transparency risks because they are reluctant to share sensitive commercial information with local citizens.

It can be argued that shared service organisations have been established because political decision makers have not been able to create joined-up governments. Finland's central governments previously used financial incentives to promote voluntary municipal mergers without the desired success. In 2014, the Finnish government published a new and radical proposal for a comprehensive shared service system for all public health and social care services based on the catchments of university hospitals. However, the Constitutional Law Committee of the Finnish Parliament concluded in 2015 that the proposed bill undermined the constitutional position of local governments and democratic rights of local citizens. Currently, the ongoing public sector austerity is driving further mergers in much the same search for cost savings as in Scotland.

Conclusions

Although Scotland and Finland face many of the same demographic, financial, and organizational pressures, the comparative analysis demonstrated that the policy context and institutional framework largely determines the local choice of organisational arrangements and so the risks that arise and the way they are shared. Prior to their ongoing municipal mergers, Finland's small municipalities developed joint municipal (i.e. public-public) arrangements for sharing services whereas the UK's large municipalities have pursued more diversified sharing with the private and third sectors, as well as with other public sector organisations.

Finland's fundamental problem has long been (and to a large extent still is) due to its very small local governments making unviable delivery of major services on their own. Their small size is seen as the essence of local democracy but the sharing of service provision across municipal boundaries has blurred transparency and so inhibited holding local politicians to account and thereby creating political and reputational risks. There is a risk that some of the new shared services arrangements will be only short-term solutions and not carefully designed or governed because there are continuing pressures to change the municipal structure to be fit for purpose in this era of austerity.

Scotland's shared service challenges are based much more on the historical separation of health and social services and its search for cost savings simultaneously with improved service effectiveness via joined up services based on public-public partnership arrangements. Nevertheless, the political and reputational risks are essentially the same as in Finland despite the differing starting points.

Notwithstanding the different starting points of these two countries, strategic risks have been shown to be applicable to all shared service models, and greater when those models are imposed top-down but not considered appropriate by the service organisations. Operational risks have been shown to depend upon the organisational form and structure of shared service models, depending upon whether they are joint boards, body corporate or municipal enterprise arrangements.

Irrespective of whether services are joined-up through joint ventures or joint working or whether shared services are compulsory or voluntary, the comparative analysis revealed lack of a holistic risk-led approach to combined operations in both countries, it also being made clear that such an approach is required if risks are to be managed and mitigated, taking measured risks by comparing risks with rewards.

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